

Message Text

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ACTION SS-25

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S E C R E T MOSCOW 14239

EXDIS

FROM ROBINSON

E.O. 11652 GDS

TAGS: ETRD, UR, US

SUBJ: GRAIN/OIL NEGOTIATIONS

REF: A. STATE 237177; B. STATE 237288

1. SUMMARY. AMBASSADOR STOESSEL AND I MET WITH PATOLICHEV AND KUZ'MIN FOR A 3 1/2 HOUR MEETING AS A FOLLOWUP TO THE MEETING OF THE GRAIN WORKING GROUP REPORTED BY SEPTTEL. WE CONTINUED TO PRESS FOR THE OBJECTIVES SET FORTH IN REFTTEL A AS MODIFIED BY REFTTEL B. HOWEVER THE SOVIETS REMAIN FIRM ON CERTAIN BASIC CONDITIONS AND WE BELIEVE THAT, IF GRAIN AND OIL AGREEMENTS ARE TO BE CONCLUDED PROMPTLY, WE NEED IMMEDIATE AUTHORITY AS FOLLOWS:

A. DELETE REFERENCE TO RESERVE GRAIN STOCKS AND INFORMATION EXCHANGE IN PREAMBLE.

B. INCLUSION OF
THE WORD "APPROXIMATELY" BEFORE
"EQUAL PROPORTIONS" IN ARTICLE 1.

C. AUTHORIZE ONE OF THE FOLLOWING ALTERNATIVE
SOLUTIONS TO THE ESCAPE CLAUSE ISSUE.

(1) ELIMINATE THE USG UNILATERAL RIGHT TO
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REDUCE GRAIN AVAILABILITY BELOW THE SIX

MILLION TON MINIMUM, EXCEPT AS MUTUALLY
AGREED, OR
(2) GRANT SOVIETS THE RIGHT TO TERMINATE
AGREEMENT IF WE ELECT TO REDUCE AVAILABLE
TONNAGE BELOW SIX MILLION TON MINIMUM.

D. OIL PRICING TO BE MUTUALLY AGREED.
THESE REMAINING ISSUES ARE NOW CLEARLY DEFINED. UNLESS
WE RECEIVE INSTRUCTIONS TO PROCEED ALONG THESE LINES, AND
IMPLEMENTATION OF THOSE INSTRUCTIONS YIELDS SIGNIFICANT
PROGRESS TOMORROW TUESDAY, I PROPOSE THAT OUR NEGOTIATING
TEAM DEPART TOMORROW NIGHT, AS NOW SCHEDULED. END SUMMARY.

2. THE QUESTION OF REFERRING TO RESERVE STOCKS AND
INFORMATION EXCHANGE EVEN IN THE PREAMBLE HAS BEEN
UNEQUIVOCALLY REJECTED BY PATOLICHEV AS AN EFFORT TO FORCE
THEM INTO MULTILATERAL COMMITMENTS THROUGH OUR PROPOSED
BILATERAL AGREEMENT AND DISCLOSURE OF CONFIDENTIAL INFORMA-
TION WHICH WOULD WEAKEN THEIR GRAIN TRADING POSITION WITH
OTHER COUNTRIES. ANY FURTHER EFFORT TO ACHIEVE THIS
OBJECTIVE WOULD BE COUNTER PRODUCTIVE.

3. IN SPITE OF OUR CONTINUED OPPOSITION, THE SOVIETS
INSIST UPON STATING IN ARTICLE 1 THAT THE QUANTITY OF
WHEAT AND CORN MUST BE "IN APPROXIMATELY EQUAL PROPORTIONS"
TO PROVIDE BOTH SIDES WITH SOME FLEXIBILITY. THEY ARGUE
THAT THEIR TYPICAL COMMERCIAL PURCHASES CALL FOR PLUS OR
MINUS FIVE PERCENT AT THE OPTION OF THE SUPPLIER.

4. THE U.S. HAS ALREADY BEEN GRANTED THE UNILATERAL RIGHT
TO REDUCE THE TONNAGE UNDER THIS AGREEMENT IN THE FORM OF
A PROHIBITION AGAINST PURCHASES ABOVE EIGHT MILLION WITHOUT
USG APPROVAL UNDER ARTICLE 5B AND U.S. RIGHT TO ELIMINATE THE
TWO MILLION TON OPTION WHEN WE EXPERIENCE A SERIOUS GRAIN
SHORTAGE. TO GO BEYOND THIS LIMIT IS COMPLETELY
UNACCEPTABLE TO THE SOVIETS. (THEY PRESENTED US WITH
LANGUAGE FOR INCLUSION IN ARTICLE 5A RELATING TO U.S.
SIDE LETTER WHICH INDICATES THAT SOVIETS WILL NOT ACCEPT
IN THIS SIDE LETTER ANYTHING MORE THAN A DEFINITION OF
"A SERIOUS SHORTAGE OF GRAIN IN THE U.S." WE DISCUSSED
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THIS IN DETAIL AND CLEARLY ESTABLISHED THEIR UNWILLINGNESS
TO ACCEPT ANY REFERENCE TO A U.S. RIGHT TO REDUCE GRAIN
SALES BELOW 6 MILLION.) THEREFORE WE BELIEVE THAT SUCCESSFUL
CONCLUSION OF THIS AGREEMENT WILL REQUIRE OUR ACCEPTANCE
OF ONE OF THE FOLLOWING ALTERNATIVES:

A. WE AGREE TO FORGO THE UNILATERAL RIGHT
TO REDUCE SOVIET PURCHASES BELOW SIX MILLION

TONS EXCEPT AS WE MAY MUTUALLY AGREE, OR

B. GRANT THE SOVIETS A RIGHT TO TERMINATE
THE AGREEMENT SHOULD USG REDUCE SOVIET
PURCHASES OF GRAIN BELOW SIX MILLION.

WE BELIEVE THAT ALTERNATIVE A COULD BE MORE EASILY SOLD
TO THE SOVIETS BUT, IN THE EVENT THAT IT IS DECIDED THAT
U.S. POLITICAL CONSIDERATIONS RULE AGAINST THIS, WE
BELIEVE THAT ALTERNATIVE B MAY BE THE ONLY PRACTICAL
SOLUTION.

5. WE ARE CONTINUING TO PRESS FOR A LETTER OF INTENT
FOR U.S. PURCHASE OF SOVIET OIL IMPLYING A DISCOUNT FROM
WORLD MARKET PRICES. HOWEVER, IT APPEARS HIGHLY UNLIKELY
THAT THE SOVIETS WILL ACCEDE TO OUR DEMANDS ON THIS POINT.
(SEE SEPTTEL MOSCOW 14238 FOR THEIR PROPOSED FORMULATION.)
WE BELIEVE THAT OUR ONLY PRACTICAL SOLUTION TO AN OIL PRICE
DISCOUNT IN THE ULTIMATE AGREEMENT LIES IN THE SPECIAL
ARRANGMENTS INVOLVING TRANSPORT OF THIS OIL TO THE U.S.
WITH ADVANTAGES IN THE SWAP ARRANGEMENTS. WE WILL CONTINUE
TO PRESS FOR WORDING ON THE PRICE CLAUSE MORE CLEARLY
BENEFICIAL TO THE U.S. BUT REQUIRE AUTHORITY TO FALL BACK
TO THE EXPRESSION "AS MUTUALLY AGREED." (WE HAVE OBTAINED
SOVIET ACCEPTANCE OF THE 30 DAY LIMIT FOR OIL AGREEMENT
NEGOTIATIONS).

6. THE FOREGOING RECOMMENDATIONS ASSUME SATISFACTORY
RESOLUTION OF THE MARITIME AGREEMENT WHICH WE UNDERSTAND
IS NOW SUBSTANTIALLY RESOLVED THROUGH AN EXCHANGE OF
MESSAGES BETWEEN BLACKWELL AND AVERIN OF THE SOVIET MINISTRY
OF MERCHANT MARINE.

STOESSEL

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